G-7 Issued February 1934

UNITED STATES DEPARTMENT OF AGRICULTURE

AGRICULTURAL ADJUSTMENT ADMINISTRATION

WASHINGTON, D.C.

THE DAIRY DILEMMA

[Address by HENRY A. WALLACE, Secretary of Agriculture, at Farm and Home Week, Wisconsin College of Agriculture, Madison, Wis., Jan. 31, 1934, at 11 a.m., central standard time]

The Farm Act became law May 12. That was more than eight months ago. The Act said that a national emergency existed with respect to agriculture, and especially with respect to farm products named in the law as basic. These were the products named as basic: wheat, cotton, corn, hogs, tobacco, rice, and milk and its products.

A program to adjust the supply of wheat to the demand is under way. So also are programs to adjust the supply of cotton, corn and hogs, tobacco, and rice. But as yet there has been no program to adjust the supply of milk and its products to the demand.

I have come here to Wisconsin to talk with you about this. You live in a great dairy State. In your dependence on dairying, you want to know why the Agricultural Adjustment Administration has not done as much for the dairy industry as it has for the wheat and the cotton industries. You are asking what we have been doing these past eight months, anyway, and you inquire whether you can expect anything from us in the immediate future.

I am going to try to answer these questions today. I am going to admit our mistakes, and, since I have the floor, I am going to admit your mistakes for you. On that basis maybe we can really make a start with this dairy problem.

When the Farm Act was being framed last March, the dairy leaders conferring with us in Washington were a little hesitant about including milk as a basic commodity under the terms of the bill. I suppose that was because of their distaste for production control and the consequent processing tax, and because of their belief that other means—notably marketing agreements—would suffice. It was also true that the dairy industry, at that time, was relatively better off than most important farm enterprises; that is not saying very much, yet it was an advantage which had persisted throughout much of the post-war period. Nevertheless, it was finally agreed to include milk as a basic commodity in the bill, leaving the question of actually applying production control for the pleasantly remote future. The

section of the bill permitting marketing agreements, many of the dairy representatives felt, offered the most substantial hope. Distributors expressed themselves as profoundly interested in the possibility of raising the price to the farmer without raising it much, if any, to the consumer. There were those who spoke of a dairyman's Utopia just around the corner.

It was not surprising, therefore, to find representatives of the fluid milk markets camping on our doorstep even before the Farm Bill became law. In the midst of our attempts to get our new machinery assembled, and find the right men to run it, we devoted what time we could to drawing up marketing agreements for some of the important milksheds. The local representatives gave of their time and energy without stint, and so did we. Even so, the process required months, rather than weeks. Looking back on it, I doubt if it could have been speeded up so very much.

The whole intent of the Farm Act, as you know, is to increase farm purchasing power until it is in a sound relationship with the purchasing power of other large producing groups. Milk marketing agreements, it was believed by many, could help to raise farm purchasing power by raising the price farmers were paid for fluid milk. But in order to raise milk prices to farmers, it also seemed necessary to give distributors a long-sought protection against price-cutting and various other unfair trade practices.

That may sound simple enough, stated in outline, but recent events have demonstrated that it is anything but simple. Early in the process of devising these marketing agreements we were plunged into long-standing conflicts between big distributors and little distributors, between huge combines and small independents, between dealers who delivered milk and stores which delivered it, and between all of these and chain stores which sold on a cash-and-carry basis. At times it was hard to see the woods of higher farm prices for the trees of distribution. And always, there was the consumer to consider.

We recognize an obligation to insure orderly marketing, and to permit distributors to fight against unfair trade practices. But plainly our first duty must be to give the producer as high a price as was economically justifiable, and to protect the consumer against gouging. It became more and more obvious, as our conferences and hearings on the agreement continued, that our main objectives were in danger of being drowned in the flood of details and conflicts incident to the distribution of milk. Old questions appeared again and again: Is there some sound compromise possible between the huge corporate distributor and the little independent? What is the right answer to the growing controversy between the chain stores and the wagon-delivery dealers? Must we, ordered to labor in the farmer's behalf, try to settle these questions? If we must, shouldn't our answers be in accord with what seem to be sound economic trends?

To put the matter quite bluntly, we wanted to know whether, in order to give the farmers what they needed, we also had to give the distributors everything they wanted. We asked whether failure to give the distributors what they wanted would mean that we could not give the farmers what they needed. And if the answer to that was "Yes," we wanted to be assured that what the distributors were asking was reasonable and enforceable.

To these questions, and others like them, answers were slow in coming; when they did arrive, they were not satisfactory. There was a resistance against our waiting to fix consumers' prices until we first went into the affairs of the distributors as deeply as we knew we must, if we were to assure ourselves that their requests were reasonable, and that the licenses they proposed were enforceable. Resistance on the part of the distributors was not surprising; the attitude of some dairy co-op leaders was surprising. We knew, of course, that for years many of the leaders had been compelled to work closely with the distributors, for unless they went a good way with the distributors, they could get nothing for the producers. But we hoped that the Agricultural Adjustment Act had changed that situation.

Specifically, we did not want to set up a complete schedule of prices in any milk shed, involving retail prices as well as farm prices, until we knew whether existing prices charged by the distributors were reasonable. We could discover that only by access to the books. Yet we were urged by some of the most influential co-op leaders to set up the complete price schedule first, slap on a license, and examine the books later and at leisure. They seemed quite willing to risk the possibility of prices too high to the consumer, of excessive profits to the distributor, and, in short, of an agreement that might prove to be unsound economically and therefore unenforceable. They were not only willing to risk it; they were insistent that we do so. Our suggestion last September that we start out with only the producers' price fixed, and issue licenses on that basis, fell on deaf ears. We were almost compelled to conclude that perhaps the distributors had the situation so well in hand that they had us all by the throat, and that our only alternative to inaction was to go into some of these agreements blindly for the time being.

The attitude of the milk-shed representatives was, "For God's sake do something, and do it quick." Our distaste for rushing into the thing blindly was not shared by them. We knew, of course, that in making these agreements we would have to have a few arguments with the distributors, but we hardly expected distributors' arguments to come from the mouths of co-op leaders. It became a strange spectacle, this sight of farm folks lining up with the distributors in behalf of fixed retail prices, and arguing that higher farm prices were not possible without higher prices all along the line. We suspected that the distributors were making fairly handsome profits as it was; we were not inclined to raise the ante for them, or to protect them against competition beneficial to consumers and not hurtful to farmers, which might lower those profits. Of even more importance, we feared going into an agreement which was not economically sound, which would invite competition from milk producers on the edges of the zone, and from independent distributors catering to consumer requests for cheaper milk; an agreement which would not have public support and therefore which could not be enforced. Nevertheless, as you know, we did enter a few such agreements, only to have our fears all too promptly fulfilled. Hence the recent announcement, of a new policy governing these milk marketing agreements, in which we declare it our first and principal concern to fix prices for milk producers at the highest level that is enforceable and economically sound, leaving the price to the consumer subject to competition. In some cases a maximum price to consumers may be specified. As far as distributors'

prices and margins are concerned, I do not see how the Government can permit them to be fixed unless the Government has authority to control distributors' profits.

Now I have never engaged in the practice of "baiting" the middle man, and I do not propose to begin now. I have, on the other hand, put a good deal of faith in the possibilities of cooperative marketing. Where the interests of the co-op conflict with those of the middle man, I probably have a prejudice in favor of the co-op and the farmer. But now it develops that it is difficult to distinguish the behavior of a few who appear in Washington as producers' representatives from that of the distributors' representatives. We find such alleged spokesmen arguing, in effect, for the distributors, for letting the distributors make unrestricted profits, just so long as the producer gets his. What happens to the consumer, meanwhile, or to the building up of an unsound economic situation for the 70 percent of the dairy farmers who are not selling fluid milk—what happens here, is conveniently kept in the background.

I do not say this is true of all or even a majority of milksheds or dairy marketing cooperatives or their leaders; it is true of enough, however, to compel somebody to say something about it regardless of the consequences. The farmer is naturally resentful at a system in which he loses half his purchasing power, while the people who distribute his products rake in the profits at the old pre-depression rate. It is food for thought, when agriculture has its back to the wall, to have a few food distributing corporations among the first dozen in net earnings of all the Nation's corporations throughout the depression.

Perhaps I should be a little more specific about it. Under the terms of the milk marketing agreements, we did look into the books of the distributors after the agreements were already in operation. True, we had already set up complete price schedules from farm to consumer, and had done this pretty much in the dark; but at least we would have an impartial audit and analysis of the distributors' books to guide us in the future. It was not quite like locking the barn door after the horse was stolen; the horse in this case was only in the process of being stolen.

Auditors for the Agricultural Adjustment Administration have completed their examination of milk distributors' books in some of the large milksheds. They have determined what they call the yield on net plant investment, and the percentage of that yield which may properly be classified as net profits. To get at this determination our auditors eliminated such things as high bonuses to high officials, and excessive charges for obsolescence and depreciation. They also chose, in getting at a defensible figure, to compute at reduced figures the salaries of some of the higher executives, for this purpose fixing a maximum of $20,000.

I have the composite figures on distributors' profits in St. Louis, Chicago, Boston, and Philadelphia, for the five years ending December 31, 1933. These figures are for distributors handling from two thirds to 90 percent of the milk in these cities. As the Government auditors—not the distributors, of course—figure, the distributors in these four cities took profits during the five years as follows: St. Louis distributors averaged 14.6 percent net profit; Boston, 22.5 percent; Chicago, 25.8 percent; Philadelphia, 30.8 percent. In 1933 our audi-

tors' estimates indicate that St. Louis distributors averaged 7.3 percent net profit; Chicago, 10.9 percent; Boston, 16.3 percent; and Philadelphia, 21.7 percent.

Those figures speak for themselves. They explain one reason for our new policy on milk marketing agreements. I believe they support our determination to make future agreements between producers and the Agricultural Adjustment Administration, and to license the distributors to live up to our agreement. There is more of a chance, this way, it seems to us, that both the producer and the consumer will really get a new deal.

I would not emphasize a thing of this sort unduly. After all a discussion of the economics of our dairy policy is more important. So far as milk marketing agreements are concerned, what I have been trying to say can be summed up in our experience with the Chicago milkshed. Our first milk marketing agreement was for that milkshed. It contained the faults of which I have spoken. It set prices higher than could be maintained with consumer purchasing power at its present level. The competition of new producers, the so-called "chiseling" of small distributors, was bound to come. The agreement created a hostile public opinion. It could not be enforced, and when we were convinced of that, we said so. I am convinced that was the right thing for us to do.

Volumes could be and probably will be written about that situation, but I should like to comment on just one phase of it. To some extent we were impelled to enter that agreement by the threat of strike. We were advised of the necessity for amending the agreement and raising the price again under threat of strike. When, at the request of the Pure Milk Association, the agreement was terminated, we were ready to issue and vigorously enforce a license fixing $1.70 for Class 1 milk as the price to be paid farmers, but without any schedule of consumer prices. The officers of the Pure Milk Association requested us to withhold announcement of that policy in the hope that they might perfect a private agreement with the distributors for a higher price. We wished them luck, and kept our mouths shut. The announcement of the proposed new policy for Chicago was withheld from December 29 until January 10. On January 6 the Pure Milk Association called a strike. Our efforts to settle the strike by an offer to enforce a price of $1.70 a hundred pounds for Class 1 milk were unavailing. Finally, as you know, an arbitration committee came to the conclusion that $1.85 was the price to stand for.

Since then, I am glad to say, the Chicago representatives have been down to Washington and there is every prospect of an agreement at a price for Class 1 milk of $1.75 and $1.25 for Class 2 milk. We believe those prices can be enforced. They are comparable with consumer purchasing power at present, and they ought not to invite new competition from producers living at the fringes of the milk shed. But this agreement is to be between the milk producers and the Federal Government. Distributors, though not a party to it, will be licensed and required to live up to it.

I hope we have all learned something about economics and the importance of public support from this Chicago experience. I hope also that we realize the futility of such a strike as this recent one at Chicago. Furthermore, it needs to be understood that the policy of

the Federal Government in any milk shed will not be guided or swayed by strikes or threats of strikes. Any group which looks with favor on strikes as a means of intimidation must realize that the Department of Justice will scrutinize most carefully all strikes which involve interstate commerce and the movement of the United States mail.

What I have said about distributor-minded co-op leaders obviously applies only to a few individuals, and it applies not at all to the farm cooperative movements as a whole.

All indications are that the change in milk-shed policy, while still resisted in a few localities, will be strongly beneficial to milk cooperatives in general.

Since throwing over the old policy, our experience has been a favorable contrast to that of the former period when so much of our energy was devoted to fixing of retail prices and when so much of our work was threatened by the impossibility of enforcement and the continual danger of having our entire dairy operation become enmeshed in legal difficulties.

In our recent conferences with cooperatives representing those milk sheds which formerly had milk agreements fixing retail prices, we have found that leaders of all but a few of the farmers' associations are primarily and intensely interested in the same fundamental objective that Government is now seeking, namely, assurance of farmers' prices.

The Agricultural Adjustment Administration has had a group of men working almost day and night for the past weeks preparing new licenses providing farm prices.

I am happy to say that 13 of these licenses now are ready to send out to the cities in question. These licenses to the dealers as finally to be effectuated by us after discussion in the localities, with amendments to meet local needs, will require distributors to pay producer prices which are as high as we consider enforceable in view of general economic conditions in the industry. These licenses are to be followed by marketing agreements between the Agricultural Adjustment Administration and the dairy cooperatives and including the milk distributors, if possible.

So it appears that in general our new milk policy has a good chance of obtaining the sympathy and support of cooperative marketing associations in those cities where the agreements formerly fixed retail prices.

The relationships of the new policy to two other classifications of cooperatives are to be considered. They are, first, the milk cooperatives in cities where no agreements had existed, and, second, the attitude of the associations of butter and cheese farmers. I believe the Administration can count upon important and growing support from both these groups. The first group were victims of the old policy because the time consumed in bickering over retail price schedules and distributors' advantages under the old policy made it impossible for the Administration ever to reach their problems. These problems now can get attention. As for the butter and cheese farmers and their organizations' they are and always have been primarily interested in the welfare of the dairy industry as a whole and in programs which would lift the price level for the entire dairy industry. These butter and cheese producers have nothing to lose but everything to gain from the determination of the Adjustment Administration to devote its

energies to a general dairy program. Maintaining sound relationship between fluid milk prices in the city markets and butter and cheese prices and refusal to waste time and energy on impossible burdens of enforcement of fluid milk prices which are out of line will give us at least a fighting chance to make progress with the problem of the butter and cheese producers.

So it appears that the Agricultural Adjustment Act, after a period of experiment and trouble, opens the way for a new and brighter chapter in the dairy cooperative movement all along the line.

Certainly the Department of Agriculture is aware, through long and close association with dairy cooperatives, of their genuine contributions to rural and industrial welfare. Indeed, it is the very spirit of democratic daring and progress exemplified in the pioneer cooperative movements which makes us rely so strongly upon the voluntary provisions of the Agricultural Adjustment Act. Had there been no widespread cooperative teaching and practice in American farming, the task of attempting a voluntary adjustment program would have been insurmountable.

Wisconsin and the other dairy States of the Northwest have had some fearless and constructive dairy cooperative leaders, men who built successful cooperative creameries, cheese federations and associations interested in fluid milk and evaporated milk marketing. Nevertheless they were continually hedged in by the faults of an industrial and commercial system which they could not themselves control. The cooperatives were obliged to adopt the same trading methods as the old line companies engineered by rugged individualists. Because of this enforced compliance with custom, and acceptance of the so-called "ethics of business", too many cooperatives became calloused and indifferent to ideals.

Hence it was natural for many of the dairy cooperative leaders to follow the path of least resistance. It was easier to drift than to fight, especially when the odds were against them for the time being. Meanwhile they did what they could for better quality standards and supported educational campaigns to increase consumption.

You in Wisconsin, so long noted for its ambitious and vigorous dairy cooperatives, know as well as I do, that hitherto the powers of the Federal Government toward cooperatives have been either to lend them money, to help them teach cooperative principles, or improve bookkeeping methods.

It seemed fitting and proper for another step to be taken in farm affairs under the pressure of disaster—to transplant that cooperative idea into the broad scope of national voluntary adjustment. Thus far we have evidence that the cooperative spirit at its best is broadening and taking deeper roots under the voluntary plan to which the Agricultural Adjustment Act is geared. If that evidence fails to develop further with additional basic commodity campaigns, we may be forced to consider the method advocated by the Mid-Western Governors last November—compulsory adjustment on a regimented, licensed basis. This we do not relish.

Instead it seems to me that cooperatives have much to gain by adherence to the principles of the Agricultural Adjustment Act, which gives them the greatest opportunity ever vouchsafed to organized farmers to make those same corrections and improvements which will mean security for their craft and promote confidence among

consumers. If their leaders fail to sense this fact and prefer to stay in the camp of the old Guard, using the same old weapons and methods of campaign now so thoroughly discredited, it is likely that some cooperatives will either vanish or take on new leadership.

From the outset in dealing with all commodities under the Act, including milk and its products, we have desired the active assistance of cooperative leaders and producers' associations. The mandate of the Act in respect to dairy products was clear, but the exact procedure in carrying out the mandate was not so clear. We sought counsel, therefore, from the start with members of the industry. Repeatedly we have declared that no make-shifts, palliatives, or half-way measures should be allowed to obscure the real problem from the view of the rank and file of the dairy industry. The Administration asked the members of the dairy industry to face the facts and to realize how futile it was to depend for relief upon such things as tariff increases and the restraint of competition from substitute products.

Milk marketing agreements have absorbed the spotlight, yet they can directly benefit only 30 percent of the diary farmers of the United States. What about the income of the other 70 percent? Beyond a certain point, tariff increases do far more harm than good. The possibilities of doing something about the competition of dairy product substitutes are not nearly as great as you have been told by some dairy leaders. Why narrow our vision to these things when there are more important truths to grasp? Take the most liberal prospect possible for relief through action on tariff, oleomargarine, foreign fats and oils, and the like, and you haven't approached the relief dairymen really need. That relief is predicated on two facts above all others: First, the fact of low consumer purchasing power; and second, the fact of relative overproduction in dairy products. Unless we do something about those two items, we won't be doing anything substantial.

I shall come back to those items in a moment, but first let us admit into the record a few confessions for the good of our souls. Ever since the passage of the Farm Act, the dairy industry has been trying to find short-cuts to the Promised Land. First, it was said that no adjustment was necessary, and that in due time the general industrial recovery would put the dairyman back on his feet. Next, many of the leaders seized upon the marketing-agreement section of the Act as something which might bring a maximum of benefit at a minimum of trouble and risk. They even suggested that if the Administration stepped lively we might impose 1 cent per quart extra on consumers in all the major milk sheds, with licenses as a club. When that remedy appeared to be involved in economic and legal difficulties, and the butter and cheese people began to complain of low prices and advancing costs, the next proposal was to have the Government buy a lot of butter in order to steady prices. But as more production resulted both from the butter price-pegging and the fluid milk agreements then in effect or pending, the dilemma was still greater. Their next suggestion was to withdraw large areas of submarginal lands from agriculture. But since this was a long-time program, it did not solve the immediate problem.

A word in passing on the butter surplus removal. Some confusion has existed concerning the object, results, and methods in the butter deal which the Agricultural Adjustment Administration and the Fed-

eral Surplus Relief Corporation conducted to remove surplus stocks for welfare purposes. The major sum so used was an advance in anticipation of processing taxes. On January 1, 1934, a total of about 61 million pounds had been purchased or committed for on bids. Of this amount about 4 million pounds had been distributed, 39 million pounds was in the Government's possession, and 18 million pounds additional were scheduled for purchase on bids. Some cheese has been included. The major portion of the butter was secured on primary markets under exchange rules, at first working with Land O'Lakes Incorporated, and later through the Dairy Marketing Corporation on an agreement with the Government. Neither Land O' Lakes nor the Marketing Corporation operated on their own funds. As you are aware, the Federal buying at principal butter markets sustained the price well above 21 cents for many weeks, which was because the Government was the principal taker of fresh butter and storage stocks. The general effect as of January 1 was to bring the total balance left in commercial channels down to within five million pounds of the five-year average storage for that date, after deducting the Federal butter holdings. No doubt this has been of considerable value, but the practice could not be continued for the present beyond the needs of the Federal Emergency Relief Administration. They are now distributing about 3 million pounds of this butter per week and hope to move out the last consignment by April 1 through local relief agencies. Some criticism of the buying on bids has been made, and it is charged that this puts a drag on the whole butter market. To this let me reply that three out of four bid openings have been rejected because the asking prices were three to eight cents above current market for 92 score Chicago butter. Low competitive bidding has not developed at all, nor has there been any injury done to current prices thereby. If there is any drag on butter market quotations, it lies with the exchanges, which do not always reflect the true volume of supply and demand.

Finally we got right down to brass tacks and held a hearing on rates of processing taxes and compensating taxes. There it was insisted that if we *must* start something, then one cent per pound of butterfat was all the industry could stand, although that rate would not provide more than 30 million dollars, a large part of which had been allocated in advance for buying for relief purposes. At last the dairy leaders issued a manifesto which said that no production-control plans whatever would be supported by the dairy industry unless we did at least three things first: (1) Guarantee that no land withdrawn from other basic commodities could or would be used in the slightest degree to produce dairy products; (2) place prohibitive tariffs on all foreign fats and oils; (3) restrict or confiscate the oleomargarine industry, particularly the well known "cocoa-nut cow."

In other words, they wanted to run a hurdle race. I shall not dwell long on the barriers which they erected. Withdrawal of lands from production of basic commodities already under adjustment programs is duly provided for in the contracts, subject to local supervision. Anything done to make the prices of cotton, wheat, and corn and hogs higher, with or without contracts, certainly means less competition for the dairyman than would be the case in the absence of any adjustment and benefits for cotton and the other commodities.

Furthermore, it seems to me that public policy in some of the leading exporting dairy-cattle states has hitherto built up far greater competition for the industry in years past than any now likely under the present Act. Wisconsin alone has shipped out as high as 80,000 head of dairy cattle in a year, used as foundations for producing herds in areas already overstocked.

As late as September some of the dairy interests repeated that they wanted no national production control plan unless it was hedged with tariffs and embargoes on oils and fats and strict oleomargarine regulation, especially the restriction of its manufacture solely to domestic ingredients.

It should be recognized that such measures would have effects on dairy prices, the extent and duration of which are highly controversial questions. I would not be honest with myself or the dairy people if I did not state that I fear the results would be much less substantial than some dairy leaders believe. Certainly they would not be anywhere near great enough to obscure the need for a fundamental program for dairying. Really substantial relief for dairying should not wait for any measures of this character.

In spite of more cows and greater milk-production power, it would be a grave mistake to regard the dairy industry's problem solely as one of overproduction. There is a great potential consuming power among the American people for dairy products. There are large sections of the country not now receiving enough dairy products to constitute a reasonably balanced diet.

When we speak of overproduction in the dairy industry we mean production of quantities of dairy products beyond the ability of consumer purchasing power to absorb at anything above distress prices to farmers. Therefore, we do not think of curtailment of milk production in any absolute or permanent sense as we do in the case of wheat.

There exists in the dairy industry a temporary emergency overproduction. This storage excess is a contributing factor in holding down the prices of the products of milk.

Experience with stabilization operations indicates that attempts to raise prices in advance of improvement in consumer purchasing power and without any checkrein on production are followed by such quick upturns in production as to cause a fresh and disastrous collapse in prices.

Therefore, we believe it essential that the dairy program should contain as one of its basic features such a method of production control that will restrain production to keep it in step with increases in consumer purchasing power and prevent supply from outrunning demand to the degree that causes disaster.

It is necessary to have a dairy program which offers help to the entire industry. We must recognize the interrelation of various dairy commodities to each other, and continually keep the principle in mind that reasonable restraint of production should govern the industry during the period of recovery in consumer buying power. Milk producing sections of the country demand broader and more fundamental adjustments than those thus far undertaken and I believe they are ready to consider and accept a workable plan.

In proposing a plan for consideration by dairymen, I should like to point out that benefit payments made under the funds available

should set in motion forces having favorable effect upon the purchasing power of consumers. Our experience with payment of benefits in the cotton and wheat regions indicates that increasing the income of farmers is quickly and strongly reflected in business and industrial recovery in the areas. Thus payments to dairy farmers, like those made to the cotton and wheat producers, should to some extent at least result in a recovery in consuming purchasing power which would start a cycle of increasing demand for dairy products. The December figures indicate that the difference between average cash price for butterfat in all forms of milk sold and the fair exchange value under the Act is almost 16 cents. Obviously, we cannot have a tax rate that high.

I have endorsed before Congress an emergency plan for $200,000,000 over and above this year's receipts from processing taxes, to be used for the beef and dairy cattle industries, as a supplement to receipts from processing taxes in financing the program this year, and to advocate inclusion of beef cattle within the terms of the Agricultural Adjustment Act. Of course, money taken from the Treasury must be replaced out of either processing taxes or other tax receipts. The Adjustment Act's intent is to provide a continuous source of revenue, and the thought is that ultimately when consumer purchasing power is on the upgrade, the industry will not feel the tax as much as in the present emergency, so that then it will be easier to replace out of processing taxes the special fund made available now. A bill to create this fund has been introduced in Congress. Governor Schmedeman has joined your Congressional delegation in supporting it. Indeed, Governor Schmedeman and his staff and Dean Christensen have been alert to the dairy welfare at all times and we appreciate their counsel.

The proposed special fund is desirable because both dairy and beef producers, pending recovery in consumer buying power, would feel the processing tax more than export agriculture, whose prices are fixed in the world markets. The appropriation will enable advance payments to reach the farmers by the time a substantial tax is felt. We believe that as the market is freed from the pressure of oversupply, the tendency for the tax to be reflected in producer price will disappear. Further aid could be obtained through additional surplus relief purchases, affording dairy products to the needy unemployed who otherwise would be unable to obtain them, with the purchases timed to coincide with dairy price advances.

The tentative plan which the Administration is offering to the dairy industry is an individual voluntary farm allotment proposal, financed by a processing tax on all butterfat in milk and its products and a compensatory tax on oleomargarine. The rate of the processing tax would eventually reach 5 cents or more per pound of butterfat in all milk and its products, with a compensatory tax on oleomargarine equivalent to the tax rate on butter.

A 3-year base period, with individual production of butterfat for 1931, 1932, and 1933 established for each farmer, is contemplated. The goal to be sought is an individual reduction of 15 percent in milk and butterfat produced for market in the year ahead below the quantities sold in the past year, with the prospect that this would assure a 10 percent net reduction, or whatever fraction of this percent may appear necessary.

The method of securing reduction on the farm is to be left to the judgment of cooperating producers. Compensation to cooperating producers is to be secured through benefit payments or premiums on sales on an agreed reduction basis under contract.

The quantities would apply to individual dairymen on a voluntary system. Each producer would have his quota of total sales for the year divided into four parts, but such quarterly division of each individual's total allotment would be left largely to each individual's choice. As substantial an advance payment as possible would be made to each cooperating producer soon after his contract is accepted. Additional payments might be made quarterly.

The plan is intended to be operated in a flexible manner so as to permit expansion of the industry as rapidly as consumer buying power expands. After the emergency oversupply is reduced, the industry should be guided toward a controlled expansion up to the limit of consumer purchasing power.

In addition to the use of funds for direct individual adjustments to secure the proper balance between supply and demand, we propose to inaugurate an intensive educational campaign among cooperating producers to assist them in determining and applying the most economical and effective methods of complying with the reduction specified in their contracts. The Bureau of Dairy Industry and the Agricultural Extension Service already have mapped out tentative plans to fit such a campaign. The object is assistance of farmers in economical production and aid for them in selection of profitable and practical means of production adjustment. It is further proposed to allocate such sums as Congress may determine for two other purposes.

One of the plans is to engage in an intensive campaign to eradicate tuberculosis in dairy cattle. For a two-year campaign on a joint basis as at present, sharing costs between the States and Federal Government, the Federal share of the expense is estimated at about $5,000,000. The various States requiring further eradication of tuberculosis in cattle would appropriate sums to assist in the work. It is estimated that there are about 5,000,000 head of dairy cattle yet to be tested for tuberculosis, with about 600,000 head as the number normally expected to be subject to removal.

Speeding up this campaign so as to complete the testing in one year would require about $40,000,000 which would be expended mostly in four or five States. The tuberculin testing campaign is recognized primarily as a health and public welfare measure rather than a direct means of production control. Hence it does not appear equitable to ask the dairy industry as a whole to accept a reduction in benefit payment funds sufficient to finance so large a program.

The other plan involving use of part of the emergency fund relates to possibility of removing normal dairy cows of good production from intensive dairy areas in the leading dairy States to regions in the South where thousands of families have existed for years without a proper proportion of dairy products in the diet. Such cows will be selected with care in areas where animals of required standards are plentiful, particularly in regions where herds are being maintained relatively free from tuberculosis. Similarly their distribution would be handled so as to assure producers that such cows would not be used for commercial purposes, but would stimulate the greatly subnormal demand

for dairy products in those regions. This plan is advanced contingent upon its acceptance by the dairy industry, although it already has been urged not only by spokesmen of the industry, but also by persons who are well informed concerning the dietary deficiencies of some southern regions. The definite sum to be allocated for such purposes has not been stated. It would probably not be large at first so that the plan might be given a fair trial in a limited way.

This dairy program is not submitted as anything that is hard and fast or that is to be imposed on the dairy farmers of this country. We simply submit it, as it is our duty to do as the best plan that we have been able to devise after months of discussion and study of the many proposals which have been made to us. We know that we cannot make it succeed unless the dairy farmers of this country want it and support it, and unless they cooperate whole-heartedly in its operation.

We are willing to accept any modifications which, after full discussion by farmers and their representatives, appear sound and desirable. If the dairy farmers or any substantial group in industry do not want this program we are willing to abandon it because we doubt whether it can succeed without strong support from the dairymen. If dairy farmers are willing to wait for substantial price advances until consumer purchasing power increases, the Government will be only too glad to keep hands off. But we are frank to say that if some sound and comprehensive program is not adopted soon the path of the dairy industry is likely to be rough. Our course will be determined by the response of the dairy farmers and their representatives to this program.

U. S. GOVERNMENT PRINTING OFFICE: 1934